

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Charter Township of China	County St. Clair
Fiscal Year End 12/31/2006	Opinion Date 04/04/2007	Date Audit Report Submitted to State 05/15/2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

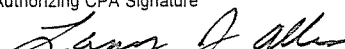
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC		Telephone Number (810) 984-3829		
Street Address 1979 Holland Avenue		City Port Huron	State MI	Zip 48060
Authorizing CPA Signature 		Printed Name Larry J. Allen		License Number 1101008117

CHARTER TOWNSHIP OF CHINA, MICHIGAN

**ANNUAL FINANCIAL REPORT
with Supplementary Information**

**FOR THE YEAR ENDED
DECEMBER 31, 2006**

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



CHARTER TOWNSHIP OF CHINA, MICHIGAN
St. Clair County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of the
Charter Township of China
St. Clair County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of China, Michigan, as of and for the year ended December 31, 2006 which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of China's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter Township of China's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of China, Michigan, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 7, and schedules of budgetary comparisons on pages 32 through 34 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of China's basic financial statements. The combining and individual fund financial statements on pages 35 through 39 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

April 4, 2007

OVERVIEW OF THE FINANCIAL STATEMENTS

The Charter Township of China's 2006 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Township. The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the Township's government, reporting the Township's operations in more detail than the government-wide statements.

Government-wide Financial Statements

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets, defined as the difference between the Township's assets and liabilities, are one way to measure the Township's financial health or position.

The government-wide financial statements of the Township are divided into two categories:

Governmental activities – most of the Township's basic services are included here, such as the police, fire, public works, and general administration. Property taxes, state-shared revenue, and charges for services, provide most of the funding.

Business-type activities – the Township charges fees to customers to help it cover the costs of certain services it provides. The Township's water and sewer operations are treated as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's most significant funds; not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Township Board establishes other funds to control and manage money for particular purposes.

The Township has three kinds of funds:

Governmental Funds - Most of the Township's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs.

Proprietary Funds – are used to report services for which the Township charges customers a fee for those services. The Township has two enterprise funds, the Water and Sewer Funds.

Fiduciary Funds – The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Township’s fiduciary activities are reported in a separate statement of assets and liabilities. We exclude these activities from the Township’s government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL OVERVIEW (Government-wide financial analysis)

The Township has combined total net assets of \$9,500,331. This is an increase of \$313,351 from 2005. Government-type activities comprise \$5,438,315, and business-type activities make up \$4,062,016 of the total net assets. In a condensed format, the table below shows net assets as of December 31, 2006 and 2005.

In Thousands

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
Assets				
Current assets	\$ 4,441	\$ 4,334	\$ 1,031	\$ 1,129
Restricted assets	-	-	798	761
Other assets	-	-	7	7
Capital assets	<u>2,177</u>	<u>2,250</u>	<u>4,724</u>	<u>4,768</u>
Total assets	<u>6,618</u>	<u>6,584</u>	<u>6,560</u>	<u>6,665</u>
Liabilities				
Current liabilities	1,180	1,286	67	211
Liabilities payable from				
Restricted assets	-	-	138	135
Long-term liabilities	<u>-</u>	<u>-</u>	<u>2,293</u>	<u>2,430</u>
Total liabilities	<u>1,180</u>	<u>1,286</u>	<u>2,498</u>	<u>2,776</u>
Net Assets				
Invested in capital assets –				
Net of related debt	2,177	2,241	2,417	2,338
Restricted	1,415	1,415	660	626
Unrestricted	<u>1,846</u>	<u>1,642</u>	<u>985</u>	<u>925</u>
Total net assets	<u>\$ 5,438</u>	<u>\$ 5,298</u>	<u>\$ 4,062</u>	<u>\$ 3,889</u>

The Township governmental activities experienced a net change in assets of \$140,354.

The following table shows the changes in net assets for 2006 and 2005.

In Thousands

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
Revenue				
Program revenue:				
Charges for services	\$ 48	\$ 53	\$ 250	\$ 274
Operating grants and contributions	111	100	-	-
Capital grants and contributions	10	107	82	320
General revenue:				
Property taxes	954	933	171	127
Unrestricted grants	228	226	-	-
Unrestricted investment earnings	206	145	74	52
Total Revenue	<u>1,557</u>	<u>1,564</u>	<u>577</u>	<u>773</u>
Program Expenses				
General government	732	573	-	-
Public safety	274	273	-	-
Public works	335	231	-	-
Recreation and cultural	76	56	-	-
Water and sewer	-	-	404	406
Total Program Expenses	<u>1,417</u>	<u>1,133</u>	<u>404</u>	<u>406</u>
Changes in net assets	<u>\$ 140</u>	<u>\$ 431</u>	<u>\$ 173</u>	<u>\$ 367</u>

Governmental Activities

Revenues for governmental activities totaled \$1,557,206 and \$1,564,189 for 2006 and 2005, respectively. Of this amount, \$953,573 and \$932,962 was received from taxes for 2006 and 2005, respectively.

Expenses increased by \$283,729 from 2005 to 2006, mainly due to increased legal and professional fees and road maintenance projects.

Business-type Activities

The Township has two business-type activities, the water and sewer operations. Total revenues for 2006 and 2005 were \$576,610 and \$772,955. The \$196,345 decrease is primarily due to a capital contribution of \$320,005 in 2005, and only \$82,012 in 2006 for the construction of a sewer line. The tax revenue of \$170,913 for 2006 and \$126,722 for 2005 was to pay contracted debt for the construction of the Township's share of a water plant. The taxes levied decreases in proportion to the reduction of debt payment requirements.

FINANCIAL ANALYSIS OF MAJOR TOWNSHIP FUNDS AND BUDGETS

Governmental Fund

The General fund ended 2006 with a fund balance of \$1,328,692, with \$2,716 reserved for prepaid expenditures, \$758,500 designated for a potential tax appeal, and the remaining balance of \$567,476 unreserved/undesignated. The general fund balance increased \$128,773 in 2006. The Township's other major governmental fund (Fire Fund) has revenues over expenditures of \$60,808 due to special assessment collections exceeding contract payments for fire protection and an increase in interest revenue.

The general fund had one significant amendment to the original budget due to increased costs for legal services related to the tax assessment appeal described in Note 15 to the financial statements. The amendment increased the appropriation for legislative expenditures by \$107,000. The Township did not proceed with any substantial road projects during 2006, leaving an unused budget amount of \$540,937 in the Public Works, Roads and Bikepaths.

The fire fund budget was not amended during the year, and had no significant variations between actual and budgeted amounts.

Business-type Activities

As indicated earlier the Township only has two business-type activities, the water and sewer operations. Total revenues amounted to \$576,610 for 2006 and expenses were \$403,613 for an increase in net assets of \$172,997. The increase in the net assets of the business-type activities is due to a capital contribution for the extension of the sewer line for \$82,012 and the collection of property taxes to finance principal payments on bonds that are not expensed, but reported as reductions of long-term liabilities.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Township had \$6,902,002 invested in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of December 31, 2006. The investment in capital assets includes land, land improvements, shared road system, buildings and improvements, equipment, water plant and lines, and sewer lines. During the year the Township added \$107,261 of capital assets, \$24,887 in the governmental activities and \$82,374 in the business-type activities. The governmental activities' additions were for playground equipment and a new server.

The business-type activities' additions were for an extension to the sewer infrastructure.

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
Land	\$ 479,788	\$ 479,788	\$ 8,584	\$ 8,584
Shared road system	663,287	663,287	-	-
Land improvements	1,167,380	1,167,380	-	-
Construction in progress	-	-	-	320,005
Building and Improvements	136,448	136,448	-	-
Equipment	46,069	21,182	-	-
Water and sewer	-	-	6,269,454	5,867,075
	2,492,972	2,468,085	6,278,038	6,195,664
Accumulated depreciation	(315,393)	(217,820)	(1,553,615)	(1,427,690)
	<u>\$ 2,177,579</u>	<u>\$ 2,250,265</u>	<u>\$ 4,724,423</u>	<u>\$ 4,767,974</u>

Additional information on the Township's capital assets can be found in Note 5 to the financial statements.

Long-Term Debt

At December 31, 2006, the Township had \$2,429,984 in long-term debt compared to \$2,563,828 at December 31, 2005, a decrease of \$133,844 from the prior year. The following table shows the long-term debt at December 31, 2006 and 2005:

	Business-Type Activities	
	2005	2004
Environmental Quality Bond Contract Payable	\$ 2,029,984	\$ 2,148,828
Special Assessment Bonds	<u>400,000</u>	<u>415,000</u>
	<u>\$ 2,429,984</u>	<u>\$ 2,563,828</u>

Additional information on the Township's long-term liabilities can be found in Note 10 to the financial statements.

ECONOMIC FACTORS AND NEXT YEARS BUDGET

For 2007, the Township Board adopted a general fund budget with estimated revenues of \$2,581,189 and expenditures of \$2,547,641, and will result in an addition of \$33,548 to fund balance. Although local municipalities in the State of Michigan have seen State Shared Revenues decrease significantly during the past few years, the 2007 budget does not anticipate any significant cuts.

The 2007 budget continues to set aside money for the possible settlement of a tax appeal as described in Note 15 to the financial statements. The Township continues to be conservative with spending because of this pending settlement.

CONTACTING THE TOWNSHIP

This financial report is designed to provide a general overview of the Township's finances to our residents and other interested parties in understanding the Township's financial condition. If you have questions about this report or need additional financial information, please contact the Township at (810) 765-1145.

BASIC FINANCIAL STATEMENTS

CHARTER TOWNSHIP OF CHINA

St. Clair County, Michigan

STATEMENT OF NET ASSETS DECEMBER 31, 2006

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 1,851,223	\$ 854,390	\$ 2,705,613
Investments	1,328,812	-	1,328,812
Receivables (net of allowance)	1,160,422	144,757	1,305,179
Prepaid items	56,522	-	56,522
Internal balances	(31,631)	31,631	-
Due from other governmental units	75,261	-	75,261
Restricted Assets -			
Cash and cash equivalents	-	265,457	265,457
Investments	-	87,046	87,046
Property taxes	-	176,953	176,953
Special assessments receivable	-	264,850	264,850
Interest receivable	-	3,187	3,187
Capital assets (net of accumulated depreciation)			
Assets not being depreciated	479,788	8,584	488,372
Assets being depreciated	1,697,791	4,715,839	6,413,630
Other Assets	-	7,100	7,100
Total Assets	<u>6,618,188</u>	<u>6,559,794</u>	<u>13,177,982</u>
LIABILITIES:			
Payables and accrued liabilities	74,492	28,316	102,808
Due to other governmental units	35,240	22,779	58,019
Accrued interest	-	1,395	1,395
Advances and deposits	2,720	-	2,720
Unearned revenue	1,067,421	1,875	1,069,296
Contract payable (current)	-	12,848	12,848
Liabilities Payable From Restricted Assets -			
Bonds payable (current)	-	124,208	124,208
Accrued interest	-	13,429	13,429
Non-current liabilities -			
Due in more than one year	-	2,292,928	2,292,928
Total Liabilities	<u>1,179,873</u>	<u>2,497,778</u>	<u>3,677,651</u>
NET ASSETS:			
Investment in capital assets, net of related liabilities	2,177,579	2,417,252	4,594,831
Restricted -			
Fire Operations	1,378,017	-	1,378,017
Water Plant Debt	-	659,856	659,856
Unrestricted	1,882,719	984,908	2,867,627
Total Net Assets	<u>\$ 5,438,315</u>	<u>\$ 4,062,016</u>	<u>\$ 9,500,331</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF CHINA

St. Clair County, Michigan

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental activities:							
General Government	\$ 732,226	\$ 18,831	\$ -	\$ -	\$(713,395)	\$ -	\$(713,395)
Public Safety	274,051	29,261	89,694	-	(155,096)	-	(155,096)
Public Works	334,897	-	7,683	-	(327,214)	-	(327,214)
Recreation and Culture	75,678	-	13,203	10,400	(52,075)	-	(52,075)
Total governmental activities	<u>1,416,852</u>	<u>48,092</u>	<u>110,580</u>	<u>10,400</u>	<u>(1,247,780)</u>	<u>-</u>	<u>(1,247,780)</u>
Business type activities:							
Water/Sewer	<u>403,613</u>	<u>250,053</u>	<u>-</u>	<u>82,012</u>	<u>-</u>	<u>(71,548)</u>	<u>(71,548)</u>
Total	<u>1,820,465</u>	<u>298,145</u>	<u>110,580</u>	<u>92,412</u>	<u>(1,247,780)</u>	<u>(71,548)</u>	<u>(1,319,328)</u>
General revenues:							
Property taxes					953,573	170,913	1,124,486
Grants and contributions not restricted to specific programs					227,920	-	227,920
Unrestricted investment income					206,641	73,632	280,273
Total general revenues and transfers					<u>1,388,134</u>	<u>244,545</u>	<u>1,632,679</u>
Change in net assets					140,354	172,997	313,351
Net assets at beginning of year					<u>5,297,961</u>	<u>3,889,019</u>	<u>9,186,980</u>
Net assets at end of year					<u>\$ 5,438,315</u>	<u>\$ 4,062,016</u>	<u>\$ 9,500,331</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF CHINA**St. Clair County, Michigan****BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	<u>General</u>	<u>Fire</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,234,194	\$ 89,342	\$ 527,687	\$ 1,851,223
Investments	-	1,328,812	-	1,328,812
Receivables -				
Property taxes	1,059,235	-	-	1,059,235
Special assessments	-	92,598	-	92,598
Other	7,370	-	1,219	8,589
Due from other governmental units	75,261	-	-	75,261
Due from other funds	58,723	-	1,800	60,523
Prepays	2,716	40,653	-	43,369
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 2,437,499</u>	<u>\$ 1,551,405</u>	<u>\$ 530,706</u>	<u>\$ 4,519,610</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 81,605	\$ -	\$ 118	\$ 81,723
Accrued liabilities	3,055	-	559	3,614
Advances and deposits	2,720	-	-	2,720
Due to other governmental units - local	11,072	24,168	-	35,240
Due to other funds	33,431	58,723	-	92,154
Deferred revenue	976,924	90,497	-	1,067,421
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>1,108,807</u>	<u>173,388</u>	<u>677</u>	<u>1,282,872</u>
Fund Balances:				
Reserved -				
Prepaid expenditures	2,716	40,653	-	43,369
Unreserved -				
Designated	758,500	-	400,000	1,158,500
Undesignated -				
General Fund	567,476	-	-	567,476
Special Revenue Funds	-	1,337,364	130,029	1,467,393
Total Fund Balances	<u>1,328,692</u>	<u>1,378,017</u>	<u>530,029</u>	<u>3,236,738</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 2,437,499</u>	<u>\$ 1,551,405</u>	<u>\$ 530,706</u>	<u>\$ 4,519,610</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF CHINA

St. Clair County, Michigan

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

Fund Balances - total governmental funds	\$ 3,236,738
Amounts reported for governmental activities in the statement of net assets are different because:	
Prepaid Expenses recorded in the funds on the purchase method	13,153
Accounts payable reported in governmental funds to record insurance expense not expensed in government-wide statement of net assets	10,845
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets	2,492,972
Accumulated depreciation	<u>(315,393)</u>
Net Assets of governmental activities	<u>\$ 5,438,315</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF CHINA

St. Clair County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2006

	General	Fire	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 953,573	\$ -	\$ -	\$ 953,573
Licenses and permits	-	-	29,261	29,261
Intergovernmental -				
Federal/State	250,520	-	-	250,520
Charges for services	9,284	87,980	-	97,264
Interest and rent	126,991	54,362	25,288	206,641
Other	19,947	-	-	19,947
Total Revenues	<u>1,360,315</u>	<u>142,342</u>	<u>54,549</u>	<u>1,557,206</u>
Expenditures:				
Current -				
General Government	729,203	-	-	729,203
Public Safety	142,364	81,534	50,153	274,051
Public Works	301,733	-	-	301,733
Recreation and Cultural	38,951	-	-	38,951
Total Expenditures	<u>1,212,251</u>	<u>81,534</u>	<u>50,153</u>	<u>1,343,938</u>
Revenues over expenditures	<u>148,064</u>	<u>60,808</u>	<u>4,396</u>	<u>213,268</u>
Other Financing Sources (Uses):				
Transfers In	-	-	19,291	19,291
Transfers Out	(19,291)	-	-	(19,291)
	<u>(19,291)</u>	<u>-</u>	<u>19,291</u>	<u>-</u>
Net Change in Fund Balances	128,773	60,808	23,687	213,268
Fund Balances at beginning of year	<u>1,199,919</u>	<u>1,317,209</u>	<u>506,342</u>	<u>3,023,470</u>
Fund Balances at end of year	<u>\$ 1,328,692</u>	<u>\$ 1,378,017</u>	<u>\$ 530,029</u>	<u>\$ 3,236,738</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2006**

Net change in fund balances - total governmental funds	\$ 213,268
Change in prepaid expenses recorded in the funds on the purchase method	(228)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	24,887
Depreciation expense	<u>(97,573)</u>
Change in net assets of governmental activities	<u><u>\$ 140,354</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2006

ASSETS	Water	Sewer	Total
Current Assets:			
Cash and cash equivalents	\$ 81,769	\$ 772,621	\$ 854,390
Receivables -			
Accounts	17,334	126,388	143,722
Interest	-	1,035	1,035
Due from other funds	31,631	-	31,631
Restricted Assets-			
Cash and cash equivalents	265,457	-	265,457
Investments	87,046	-	87,046
Property taxes receivable	176,953	-	176,953
Special assessment receivable	264,850	-	264,850
Interest receivable	3,187	-	3,187
Total Current Assets	<u>928,227</u>	<u>900,044</u>	<u>1,828,271</u>
Capital Assets			
Property, plant and equipment net of accumulated depreciation	3,120,781	1,603,642	4,724,423
Other Assets:			
Deposit with authority	<u>5,000</u>	<u>2,100</u>	<u>7,100</u>
Total Assets	<u>4,054,008</u>	<u>2,505,786</u>	<u>6,559,794</u>
LIABILITIES AND FUND EQUITY			
Current Liabilities:			
Accounts Payable	5,804	22,512	28,316
Accrued interest	1,395	-	1,395
Due to other governmental units - local	9,304	13,475	22,779
Deferred revenue - tap in fees	1,875	-	1,875
Current portion -			
Contract payable - Bonds	12,848	-	12,848
Liabilities payable from restricted assets-			
Accrued interest	13,429	-	13,429
Current portion of contract payable - bonds	<u>124,208</u>	<u>-</u>	<u>124,208</u>
	168,863	35,987	204,850
Long-Term Liabilities (less current portions):			
Contract payable - Bonds, net of current portion	<u>2,292,928</u>	<u>-</u>	<u>2,292,928</u>
Total Liabilities	<u>2,461,791</u>	<u>35,987</u>	<u>2,497,778</u>
Net Assets:			
Invested in Capital Assets, net of related liabilities	813,610	1,603,642	2,417,252
Reserved- debt service	659,856	-	659,856
Unreserved	118,751	866,157	984,908
Total Net Assets	<u>\$ 1,592,217</u>	<u>\$ 2,469,799</u>	<u>\$ 4,062,016</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF CHINA

St. Clair County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED DECEMBER 31, 2006

	Water	Sewer	Total
Operating Revenues:			
User fees	\$ 86,862	\$ 139,544	\$ 226,406
Connection fees	17,047	6,600	23,647
Total Operating Revenues	<u>103,909</u>	<u>146,144</u>	<u>250,053</u>
Operating Expenses:			
Professional fees	5,273	5,273	10,546
Purchased water	75,309	-	75,309
Sewer usage	-	92,113	92,113
Repairs and maintenance	9,769	9,002	18,771
Meter reading and maintenance	2,198	-	2,198
Utilities	368	1,660	2,028
Other	660	1,125	1,785
Depreciation	71,836	54,089	125,925
Total Operating Expenses	<u>165,413</u>	<u>163,262</u>	<u>328,675</u>
Operating Income (Loss)	<u>(61,504)</u>	<u>(17,118)</u>	<u>(78,622)</u>
Non-Operating Revenues (Expenses):			
Interest earned	38,752	34,880	73,632
Interest on debt	(74,938)	-	(74,938)
Property taxes	170,913	-	170,913
Total Non Operating Revenues (Expenses)	<u>134,727</u>	<u>34,880</u>	<u>169,607</u>
Net Income Before Capital Contributions	73,223	17,762	90,985
Capital Contributions	<u>-</u>	<u>82,012</u>	<u>82,012</u>
Change in Net Assets	73,223	99,774	172,997
Net Assets at beginning of year	<u>1,518,994</u>	<u>2,370,025</u>	<u>3,889,019</u>
Net Assets at end of year	<u>\$ 1,592,217</u>	<u>\$ 2,469,799</u>	<u>\$ 4,062,016</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF CHINA

St. Clair County, Michigan

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED DECEMBER 31, 2006

	Water	Sewer	Total
Cash Flows From Operating Activities:			
Receipts from customers	\$ 111,979	\$ 154,158	\$ 266,137
Payments to suppliers	(102,069)	(103,698)	(205,767)
Net Cash Provided by Operating Activities	<u>9,910</u>	<u>50,460</u>	<u>60,370</u>
Cash Flows From Non-Capital Financing Activities:			
Change in due to/from other funds	<u>3,307</u>	<u>(12,206)</u>	<u>(8,899)</u>
Cash Flows From Capital and Related Financing Activities:			
Acquisition and construction of capital assets	-	(223,061)	(223,061)
Capital contributions	-	150,349	150,349
Interest collected on special assessments	18,510	-	18,510
Collection of special assessment principal	7,885	-	7,885
Principal paid on long-term debt	(133,844)	-	(133,844)
Interest paid on long-term debt	(75,492)	-	(75,492)
Property taxes received	<u>146,567</u>	<u>-</u>	<u>146,567</u>
Net Cash Used by Capital and Related Financing Activities	<u>(36,374)</u>	<u>(72,712)</u>	<u>(109,086)</u>
Cash Flows From Investing Activities:			
Interest received	19,474	39,892	59,366
Sale of Investments	<u>119,040</u>	<u>515,214</u>	<u>634,254</u>
Net Cash Provided by Investing Activities	<u>138,514</u>	<u>555,106</u>	<u>693,620</u>
Net Increase in cash and cash equivalents	115,357	520,648	636,005
Cash and cash equivalents at beginning of year	<u>231,869</u>	<u>251,973</u>	<u>483,842</u>
Cash and cash equivalents at end of year	<u><u>\$ 347,226</u></u>	<u><u>\$ 772,621</u></u>	<u><u>\$ 1,119,847</u></u>
Reconciliation of Operating Loss to net cash provided by operating activities:			
Operating Loss	\$(61,504)	\$(17,118)	\$(78,622)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation expense	71,836	54,089	125,925
Change in assets and liabilities -			
Receivables	8,070	8,014	16,084
Accounts and other payables	<u>(8,492)</u>	<u>5,475</u>	<u>(3,017)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 9,910</u></u>	<u><u>\$ 50,460</u></u>	<u><u>\$ 60,370</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF CHINA

St. Clair County, Michigan

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

DECEMBER 31, 2006

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	\$ 812,766
	<u> </u>
LIABILITIES:	
Due to Individuals	\$ 23,000
Undistributed taxes	789,766
Total Liabilities	<u>812,766</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

The Charter Township of China, Michigan, a Municipal Corporation, was organized as a Township on March 17, 1840, under provisions of the constitution and general law of the State of Michigan and became a Charter Law Township on October 2, 1989, under Public Act 359, the Charter Township Act. The Township is one of twenty-three Townships in St. Clair County and covers an area of approximately 32 square miles. The Township operates under an elected Township Board which consists of a Supervisor, Clerk, Treasurer, and four (4) Trustees, and provides services to its more than 3,200 residents in many areas including law enforcement, fire protection, water, sewer, roads, parks and natural resources, and planning and economic development.

B. Government-wide and fund financial statements -

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the non-fiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type-activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods services, or privileges provided by a given function or segment. Taxes and other items not included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation -

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are intended to finance (the December 2005 levy in 2006). Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

CHARTER TOWNSHIP OF CHINA

St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgment are recorded only when payment is due.

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes, which are levied and collected in December of each year, are budgeted and treated as revenue in the subsequent year. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township reports the following major governmental funds:

General Fund – is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Township Fire Fund – is a special revenue fund used to account for tax revenue restricted for fire service of the Township.

The Township reports the following major proprietary funds:

Water Fund – is used to account for the treatment and distribution of water to residential and commercial users.

Sewer Fund – is used to account for sanitary sewer services provided to the residential and commercial users.

Additionally, the Township reports the following fund types:

Special Revenue Funds – are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

Agency Funds – are used to account for assets held by the Township as an agent for other governments and other funds.

CHARTER TOWNSHIP OF CHINA

St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the Enterprise Funds is charged to customers for sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources, as they are needed.

D. Assets, Liabilities and Net Assets or Equity –

Deposits and Investments –

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with original maturities of three months or less from the date of acquisition.

Investments are stated at fair value, which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at carrying amount which reasonable approximates fair value.

State statutes authorize the Township to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Receivables and Payables –

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectible.

Inventories and Prepaid Items –

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in the statement of net assets.

Property Tax Calendar –

The Township’s property tax is levied each December 1 on the taxable value of property located in the Township as of the preceding December 31. Property taxes are recognized as revenues in the year they were intended to finance (the 2005 levy is recognized in 2006 for the general fund).

The Township also collects taxes for various other municipalities and school districts. The collection and remittance of these taxes are accounted for in the Tax Collection Fund.

Capital Assets –

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. shared roads and bridge improvements, sidewalks, bike paths and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of a year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

As permitted by GASB Statement No. 34, the Township has elected not to report governmental infrastructure assets (principally shared roads and bridge improvements) acquired prior to January 1, 2004.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

	<u>Primary Government</u>
Land Improvements	10-25
Buildings and improvements	3-40
Utility systems	50
Equipment	5-25
Shared street improvements	20

Compensated Absences –

In accordance with contracts negotiated with the various employee groups of the Township, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts.

Long-Term Obligations –

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity –

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Estimates –

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Compliance –

The Township Supervisor prepares and submits the proposed operating budgets for the year commencing January 1. The budgets include proposed expenditures and resources to finance them.

Prior to December 31, the proposed budget is presented to the Township Board. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through the passage of a Township Resolution. After the budget is adopted, all amendments must be approved by the Township Board.

The Township's approved budgets were adopted at the function level for the General Fund and Special Revenue Funds. The function level is the legal level requiring approval by the Board for amendments; however, for control purposes, all the budgets are maintained at the account level.

The Township does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

Michigan Public Act 621 of 1978, Section 18, as amended, provides that a local government unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level and has not provided authority to amend the budget after year-end. During the year ended December 31, 2006, the Township amended the budget after year-end.

During the fiscal year ended December 31, 2006, the Township incurred expenditures in the General and Special Revenue Funds, which were in excess of the amount appropriated as follows:

<u>Function/Activity</u>	<u>Total Appropriations</u>	<u>Amount Expended</u>	<u>Budget Variance</u>
General Fund –			
Public Safety	\$ 138,921	\$ 142,364	\$ 3,443
Transfers Out	-	19,291	19,291
Fire Fund –			
Public Safety	81,200	81,534	334

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of December 31, 2006, the carrying amount of the deposits and investments is as follows:

	Primary Government	Fiduciary Funds	Total
Deposits with financial institutions—			
Checking	\$ 357,084	\$ 812,766	\$ 1,169,850
Certificates of deposit	4,029,644	-	4,029,644
Cash on hand –	4,386,728	812,766	5,199,494
Petty cash	200	-	200
	<u>\$ 4,386,928</u>	<u>\$ 812,766</u>	<u>\$ 5,199,694</u>
Reconciliation To Combined Balance Sheet			
Reported as Cash and Cash Equivalents –			
Deposits with financial institutions	\$ 2,970,870	\$ 812,766	\$ 3,783,636
Petty cash	200	-	200
Total Cash and Cash Equivalents	2,971,070	812,766	3,783,836
Reported as Investments –			
Deposits with financial institutions	1,415,858	-	1,415,858
Grand Total	<u>\$ 4,386,928</u>	<u>\$ 812,766</u>	<u>\$ 5,199,694</u>

Deposits –

The Township's investment policy and Act 217 PA 1982, as amended, authorizes the Township to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of a bank failure, the Township's deposits may not be returned. As an indication of the level of custodial credit risk assumed by the Township as of December 31, 2006, the book value of the Township's deposits was \$5,199,494 with a corresponding bank balance of \$5,258,861, of which \$400,000 was FDIC insured with the remaining \$4,858,861 uninsured and uncollateralized. The Township investment policy does not address custodial credit risk.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 4 – RECEIVABLES:

Receivables in the governmental and business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Property Taxes	\$ 1,059,235	\$ -
Special assessments	92,598	-
Interest and accounts	<u>8,589</u>	<u>144,757</u>
	<u>\$ 1,160,422</u>	<u>\$ 144,757</u>

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES:

The composition of interfund balances as of December 31, 2006:

Due To/From Other Funds -

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Fire Fund	\$ 58,723
Non Major Governmental - Public Improvement Fund	General Fund	1,800
Water Fund	General Fund	<u>31,631</u>
Total		<u>\$ 92,154</u>

The amounts due between funds represent (1) amounts owed for expenditures paid out of funds where the expenditure is recorded in a different fund and (2) amounts owed for revenues held in one fund that belong to another fund.

Transfers From/To Other Funds -

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Building Inspection Fund	General Fund	\$ 19,291

The above transfer represents an appropriation to cover the operations of the Building Inspections Fund.

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 6 - CAPITAL ASSETS:

Primary Government

Capital asset activity of the primary government for the year ended December 31, 2006 was as follows:

	<u>Jan. 1, 2006</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions/</u> <u>Adjustments</u>	<u>Dec. 31, 2006</u> <u>Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 479,788	\$ -	\$ -	\$ 479,788
Capital assets, being depreciated:				
Land improvements	1,167,380	-	-	1,167,380
Shared road system	663,287	-	-	663,287
Buildings and improvements	136,448	-	-	136,448
Equipment	21,182	24,887	-	46,069
Total capital assets being depreciated	<u>1,988,297</u>	<u>24,887</u>	<u>-</u>	<u>2,013,184</u>
Less accumulated depreciation	(217,820)	(97,573)	-	(315,393)
Total capital assets being depreciated, net	<u>1,770,477</u>	<u>(72,686)</u>	<u>-</u>	<u>1,697,791</u>
Governmental activities capital assets, net	<u>\$ 2,250,265</u>	<u>\$(72,686)</u>	<u>\$ -</u>	<u>\$ 2,177,579</u>
Business Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 8,584	\$ -	\$ -	\$ 8,584
Construction in progress	<u>320,005</u>	<u>-</u>	<u>320,005</u>	<u>-</u>
	<u>328,589</u>	<u>-</u>	<u>320,005</u>	<u>8,584</u>
Capital assets, being depreciated:				
Plant and Buildings	4,447,839	-	-	4,447,839
Mains and extensions	1,416,752	402,379	-	1,819,131
Equipment	<u>2,484</u>	<u>-</u>	<u>-</u>	<u>2,484</u>
Total capital assets being depreciated	5,867,075	402,379	-	6,269,454
Less accumulated depreciation	(1,427,690)	(125,925)	-	(1,553,615)
Total capital assets being depreciated, net	<u>4,439,385</u>	<u>276,454</u>	<u>-</u>	<u>4,715,839</u>
Business activities capital assets, net	<u>\$ 4,767,974</u>	<u>\$ 276,454</u>	<u>\$ 320,005</u>	<u>\$ 4,724,423</u>

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 6 - CAPITAL ASSETS - (cont'd):

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 5,709
Recreation and Culture	58,700
Public Works	<u>33,164</u>
 Total depreciation expense-governmental activities	 <u>\$ 97,573</u>
 Business-type activities:	
Water and Sewer Operations	<u>\$ 125,925</u>

NOTE 7 – PROPERTY TAXES:

The Township property taxes are levied each December on the taxable valuation of the property located in the Township as of the preceding December 31. On December 1, the property tax attachment is an enforceable lien on property and is payable by the last day of the following February.

Although the Township's ad valorem tax is levied and collectible on December 1, it is the Township's policy to recognize in governmental fund types revenues from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of Township operations.

Assessed values are established annually by the Township and are equalized by the State at an estimated percentage of the current market value. A taxable value is established on which taxes are calculated. Real and personal property in the Township for the 2006 and 2005 levies have a taxable value of \$488,469,456 and \$476,898,592, respectively.

The property taxes levied at December 1, are accrued as current taxes receivable with the appropriate deferral and are budgeted as revenue in the subsequent year in the General Fund. The property taxes levied for the Water Plant Debt Fund (an Enterprise Fund) are accrued as current taxes receivable and recognized when the tax is levied (December 1) because the amount is used to pay current bond debt.

The millages for the Charter Township of China levied on December 1, 2006 and 2005 are 2.3500 mills and 2.3200 mills, respectively, which is allocated in the following manner:

	<u>2006</u>	<u>2005</u>
Township operating tax rate	1.0000 mills	1.0000 mills
 Roads	 1.0000	 1.0000
 Water Plant debt	 <u>.3500</u>	 <u>.3200</u>
	<u>2.3500 mills</u>	<u>2.3200 mills</u>

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 8 – PAYABLES:

Payables in the governmental and business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts Payable	\$ 70,878	\$ 28,316
Wages and fringe benefits	<u>3,614</u>	<u>-</u>
	<u>\$ 74,492</u>	<u>\$ 28,316</u>

NOTE 9 – UNEARNED REVENUE:

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds and business funds defer revenue recognition in connection with resources that have been received, but not earned or are received in advance of the period they are intended to finance. At the end of the current fiscal year the total deferred revenue reported in the governmental funds was unearned.

NOTE 10 - LONG-TERM LIABILITIES:

The following is a summary of changes in long-term liabilities (including current portions) for the year ended December 31, 2006:

	<u>Balance January 1, 2006</u>	<u>Reductions</u>	<u>Balance December 31, 2006</u>	<u>Due Within One Year</u>
<u>Business-type Activities:</u>				
Water Supply System				
Contract payable –				
1999 Special Assessment Bonds	\$ 415,000	\$ 15,000	\$ 400,000	\$ 15,000
2000 Department of Environmental Quality Bonds	<u>2,148,828</u>	<u>118,844</u>	<u>2,029,984</u>	<u>122,056</u>
	<u>\$ 2,563,828</u>	<u>\$ 133,844</u>	<u>\$ 2,429,984</u>	<u>\$ 137,056</u>

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 10 - LONG-TERM LIABILITIES - (cont'd):

Significant details regarding outstanding long-term liabilities (including current portions) are presented as follows:

Water Supply System 1997 Special Assessment Bonds:

The Charter Township of China has one Water Supply System Special Assessment Bond issue outstanding at December 31, 2006, from which the proceeds were used for Water System construction. The Special Assessment Water Bonds, dated July 1, 1997, (original issue \$520,000) are due in annual installments ranging from \$15,000-\$20,000 through July 1, 2027, with interest ranging from 4.9% to 5.9%, payable semi-annually. The annual debt service requirements are as follows:

<u>Year Ending December 31,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Due</u>
2007	5.00 %	\$ 15,000	\$ 22,265	\$ 37,265
2008	5.10	15,000	21,508	36,508
2009	5.20	15,000	20,735	35,735
2010	5.30	15,000	19,948	34,948
2011	5.40	20,000	19,010	39,010
2012-2027	5.50-5.90	<u>320,000</u>	<u>149,295</u>	<u>469,295</u>
		<u>\$ 400,000</u>	<u>\$ 252,761</u>	<u>\$ 652,761</u>

Water Supply System 1999 Department of Environmental Quality Bonds:

In order to finance the cost of constructing a new Water Filtration Plant, the Charter Township of China along with the Charter Township of East China through the St. Clair County Department of Public Works have participated in the Drinking Water Revolving Fund through which Department of Environmental Quality Bonds have been sold in the amount of \$7,500,000 (Issue A) and \$925,000 (Issue B).

The amount is apportioned between the Charter Township of China and East China in the ratio of 32.12% and 67.88%, respectively.

The Townships are required to make payments to the DPW to meet debt service requirements. It is the intention of the Charter Township of China to pay the obligation for Issue A to the County from property taxes, and Issue B from connection charges and operating revenues from the system. Upon final payment of the respective bond issues ownership of 32.12% of the system will revert to the Township.

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 10 - LONG-TERM LIABILITIES - (cont'd):

The balance of the Issue A and Issue B bonds payable at December 31, 2006, which represent the 32.12% apportioned to the Charter Township of China is \$1,806,750 and \$223,234, respectively. The annual requirements to pay the principal and interest on the Issues A and B Department of Environment Quality Bonds are as follows:

<u>Year Ending December 31,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Due</u>
2007	2.5 %	\$ 122,056	\$ 49,224	\$ 171,280
2008	2.5	126,874	46,112	172,986
2009	2.5	128,480	42,920	171,400
2010	2.5	131,692	39,668	171,360
2011	2.5	134,904	36,336	171,240
2012-2020	2.5	<u>1,385,978</u>	<u>161,664</u>	<u>1,547,642</u>
		<u>\$ 2,029,984</u>	<u>\$ 375,924</u>	<u>\$ 2,405,908</u>

NOTE 11 - OPERATION OF SEWAGE DISPOSAL AND WATER SYSTEMS:

The Charter Townships of China and East China entered into an agreement with St. Clair County to acquire and construct a sewage disposal system and water system. The County has completed construction of the systems and is leasing them to the Townships. The Townships have contracted with the St. Clair River Sewer and Water Authority, a public corporation established by the Townships, for the operation, maintenance and administration of the project as permitted by the contract with the County. Upon final payment of the bond issues described in Note 10, ownership in the systems will revert to the Townships. The St. Clair River Sewer and Water Authority is reported in the annual financial statements of the Charter Township of East China as a discretely presented component unit. The Authority does not report the Utility Fixed Assets on its Balance Sheet. The Townships report the respective equity portion of the Fixed Assets on the Balance Sheets of the respective Sewer and Water Funds.

NOTE 12 - DEFERRED COMPENSATION:

The Township offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Township has agreed to contribute 10% of all full-time employees' earnings to the plan. The plan also permits the employee to defer a portion of their salary until future years. The deferred compensation is not available until termination, retirement, death, or unforeseeable emergency.

Township contributions to the plan in 2006 were \$13,293.

A trust, custodial account or annuity contract exists. Assets are owned or held by the trust, custodian or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employer creditors nor can they be used by the public employer for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries.

As part of its fiduciary role, the Township has an obligation of due care in selecting the third party administrator. The Township believes it has acted in a prudent manner and is not liable for losses that may arise from the administration of the plan.

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 13 - PRINCIPAL TAXPAYER AND UTILITY CUSTOMER:

The Detroit Edison located within the Township provides a significant portion of both property tax and utility revenue. Such revenue and the approximate percentage of the total individual revenues for the year ended December 31, 2006, are summarized below:

	<u>Approximate Percentage</u>
Property taxes - General operating	76 %
- Roads	76
- Water system debt	76
Special assessments – fire	76
Sewer Services	65
Water Services	22

NOTE 14 - RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, injuries to employees, medical benefits provided to employees, etc. The Township has purchased insurance coverage for each of these types of losses; however, the Township would be responsible should the limit of coverages be exceeded. The amount of the settlement claims for the last three years has not exceeded insurance coverage.

NOTE 15 - CONTINGENT LIABILITIES:

One of the Township's major taxpayers, the Detroit Edison Company, is appealing its tax assessments for the 2002 and 2003 tax assessments. The taxpayer has paid the contested amount. Should the taxpayer prevail, the Township would be required to refund approximately \$814,032 plus interest for 2002 and 2003 tax levies. In addition, the Township would be required to refund approximately \$843,457 for 2004 and 2005 tax levies. The Township intends to vigorously defend the original assessments and believes they will prevail. Due to the matter of the appeal, it is impossible to estimate potential liability, if any.

NOTE 16 – DESIGNATED FUND BALANCE:

Amounts designated in the general and public improvement funds are for the appeal of the tax assessments described in Note 15.

General Fund	\$ 758,500
Public Improvement Fund	<u>400,000</u>
	<u>\$ 1,158,500</u>

REQUIRED SUPPLEMENTARY INFORMATION

CHARTER TOWNSHIP OF CHINA

St. Clair County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GENERAL FUND

BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 953,800	\$ 953,800	\$ 953,573	\$(227)
Licenses and permits	250	250	-	(250)
Intergovernmental	238,165	238,165	250,520	12,355
Charges for services	6,280	6,280	9,284	3,004
Interest and rent	52,000	52,000	126,991	74,991
Other revenues	500	500	19,947	19,447
Total Revenues	<u>1,250,995</u>	<u>1,250,995</u>	<u>1,360,315</u>	<u>109,320</u>
Expenditures:				
General Government -				
Legislative	207,948	314,948	318,749	(3,801)
Supervisor	35,191	35,191	33,536	1,655
Elections	6,675	7,075	7,064	11
Clerical administrator	42,211	42,211	41,883	328
Assessor	37,005	37,005	37,369	(364)
Clerk's department	26,982	26,982	23,472	3,510
Board of review	1,450	1,450	769	681
Treasurer's department	38,691	38,691	36,726	1,965
Building and grounds	<u>237,503</u>	<u>228,503</u>	<u>229,635</u>	<u>(1,132)</u>
	<u>633,656</u>	<u>732,056</u>	<u>729,203</u>	<u>2,853</u>
Public Safety -				
Sheriff patrol	113,000	113,000	113,802	(802)
Constable	1,151	1,151	1,047	104
Planning Commission	22,710	22,710	25,911	(3,201)
Board of appeals	<u>2,060</u>	<u>2,060</u>	<u>1,604</u>	<u>456</u>
	<u>138,921</u>	<u>138,921</u>	<u>142,364</u>	<u>(3,443)</u>
Public Works -				
Roads and bikepaths	837,500	837,500	296,563	540,937
Street lights	5,000	5,000	5,170	(170)
Drains	<u>59,500</u>	<u>59,500</u>	<u>-</u>	<u>59,500</u>
	<u>902,000</u>	<u>902,000</u>	<u>301,733</u>	<u>600,267</u>
Recreation and Cultural -	<u>42,900</u>	<u>42,900</u>	<u>38,951</u>	<u>3,949</u>
Other	<u>249,386</u>	<u>132,008</u>	<u>-</u>	<u>132,008</u>
Total Expenditures	<u>1,966,863</u>	<u>1,947,885</u>	<u>1,212,251</u>	<u>735,634</u>
Revenues over (under) expenditures	<u>(715,868)</u>	<u>(696,890)</u>	<u>148,064</u>	<u>844,954</u>

Continued

CHARTER TOWNSHIP OF CHINA**St. Clair County, Michigan****STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****GENERAL FUND****BUDGET AND ACTUAL****FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Other Financing Uses:				
Transfers out	<u>-</u>	<u>-</u>	<u>(19,291)</u>	<u>(19,291)</u>
Net change in Fund Balance	(715,868)	(696,890)	128,773	825,663
Fund Balance at beginning of year	<u>1,199,919</u>	<u>1,199,919</u>	<u>1,199,919</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 484,051</u>	<u>\$ 503,029</u>	<u>\$ 1,328,692</u>	<u>\$ 825,663</u>

Concluded

CHARTER TOWNSHIP OF CHINA**St. Clair County, Michigan****STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****FIRE FUND****BUDGET AND ACTUAL****FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Interest	\$ 44,000	\$ 44,000	\$ 54,362	\$ 10,362
Special Assessments	<u>95,380</u>	<u>95,380</u>	<u>87,980</u>	<u>(7,400)</u>
Total Revenues	<u>139,380</u>	<u>139,380</u>	<u>142,342</u>	<u>2,962</u>
Expenditures:				
Public Safety -				
Professional Fees	200	200	-	200
Fire Protection	27,000	27,000	27,968	(968)
Fire Authority	<u>54,000</u>	<u>54,000</u>	<u>53,566</u>	<u>434</u>
Total Expenditures	<u>81,200</u>	<u>81,200</u>	<u>81,534</u>	<u>(334)</u>
Revenues over expenditures	58,180	58,180	60,808	2,628
Fund Balance at beginning of year	<u>1,317,209</u>	<u>1,317,209</u>	<u>1,317,209</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 1,375,389</u>	<u>\$ 1,375,389</u>	<u>\$ 1,378,017</u>	<u>\$ 2,628</u>

SUPPLEMENTARY INFORMATION

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2006

		<u>Special Revenue Funds</u>		
		<u>Public Improvement</u>	<u>Building Inspection</u>	<u>Total</u>
ASSETS				
Current assets -				
Cash and cash equivalents		\$ 527,010	\$ 677	\$ 527,687
Receivables - Other		1,219	-	1,219
Due from other funds		1,800	-	1,800
		<u>1,800</u>	<u>-</u>	<u>1,800</u>
Total Assets		<u>\$ 530,029</u>	<u>\$ 677</u>	<u>\$ 530,706</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable		\$ -	\$ 118	\$ 118
Accrued liabilities		-	559	559
Total Liabilities		<u>-</u>	<u>677</u>	<u>677</u>
Fund Balance:				
Unreserved -				
Designated		400,000	-	400,000
Undesignated		130,029	-	130,029
Total Fund Balance		<u>530,029</u>	<u>-</u>	<u>530,029</u>
Total Liabilities and Fund Balance		<u>\$ 530,029</u>	<u>\$ 677</u>	<u>\$ 530,706</u>

CHARTER TOWNSHIP OF CHINA

St. Clair County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2006

	Special Revenue Funds		
	Public Improvements	Building Inspection	Total
Revenues:			
Interest	\$ 25,288	\$ -	\$ 25,288
Licenses and permits	-	29,261	29,261
Total Revenues	25,288	29,261	54,549
Expenditures:			
Public Safety	-	50,153	50,153
Revenues over (under) expenditures	25,288	(20,892)	4,396
Other Financing Sources:			
Transfers in	-	19,291	19,291
Net changes in fund balance	25,288	(1,601)	23,687
Fund Balance at beginning of year	504,741	1,601	506,342
Fund Balance at end of year	\$ 530,029	\$ -	\$ 530,029

CHARTER TOWNSHIP OF CHINA**St. Clair County, Michigan****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****NONMAJOR SPECIAL REVENUE FUNDS****BUDGET AND ACTUAL****FOR THE YEAR ENDED DECEMBER 31, 2006****PUBLIC IMPROVEMENT FUND**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Interest	<u>\$ 6,000</u>	<u>\$ 6,000</u>	<u>\$ 25,288</u>	<u>\$ 19,288</u>
Expenditures:				
General government	2,500	2,500	-	2,500
Other	<u>98,082</u>	<u>98,082</u>	<u>-</u>	<u>98,082</u>
	<u>100,582</u>	<u>100,582</u>	<u>-</u>	<u>100,582</u>
Revenues over (under) expenditures	(94,582)	(94,582)	25,288	119,870
Other Financing Sources:				
Transfers out	<u>(400,000)</u>	<u>(400,000)</u>	<u>-</u>	<u>400,000</u>
Net change in fund balance	(494,582)	(494,582)	25,288	519,870
Fund Balance at beginning of year	<u>504,741</u>	<u>504,741</u>	<u>504,741</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 10,159</u></u>	<u><u>\$ 10,159</u></u>	<u><u>\$ 530,029</u></u>	<u><u>\$ 519,870</u></u>

CHARTER TOWNSHIP OF CHINA**St. Clair County, Michigan****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****NONMAJOR SPECIAL REVENUE FUNDS****BUDGET AND ACTUAL****FOR THE YEAR ENDED DECEMBER 31, 2006****BUILDING INSPECTION FUND**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Licenses and permits	\$ 31,000	\$ 31,000	\$ 29,261	\$(1,739)
Expenditures:				
Public safety -				
Building inspector	28,622	30,100	32,395	\$(2,295)
Plumbing/Htg/Mechanical inspector	10,350	13,850	13,136	714
Electrical inspector	9,300	9,300	4,622	4,678
	<u>48,272</u>	<u>53,250</u>	<u>50,153</u>	<u>3,097</u>
Revenues under expenditures	(17,272)	(22,250)	(20,892)	1,358
Other Financing Sources:				
Transfers in	<u>15,671</u>	<u>20,649</u>	<u>19,291</u>	<u>(1,358)</u>
Net change in fund balance	(1,601)	(1,601)	(1,601)	-
Fund balance at beginning of year	<u>1,601</u>	<u>1,601</u>	<u>1,601</u>	<u>-</u>
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

FIDUCIARY FUNDS

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

AGENCY FUNDS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Balance January 1, 2006	Additions	Deductions	Balance December 31, 2006
TOTAL ALL AGENCY FUNDS				
Assets:				
Cash and cash equivalents	\$ 197,590	\$ 26,731,981	\$ 26,116,805	\$ 812,766
Liabilities:				
Due to individuals	\$ 23,000	\$ 13,200	\$ 13,200	\$ 23,000
Undistributed taxes	174,590	26,718,781	26,103,605	789,766
	<u>\$ 197,590</u>	<u>\$ 26,731,981</u>	<u>\$ 26,116,805</u>	<u>\$ 812,766</u>

CURRENT TAX COLLECTION FUND

Assets:				
Cash and cash equivalents	\$ 174,590	\$ 26,718,781	\$ 26,103,605	\$ 789,766
Liabilities:				
Undistributed taxes	\$ 174,590	\$ 26,718,781	\$ 26,103,605	\$ 789,766

PERFORMANCE BOND CUSTODIAL FUND

Assets:				
Cash and cash equivalents	\$ 23,000	\$ 13,200	\$ 13,200	\$ 23,000
Liabilities:				
Due to individuals	\$ 23,000	\$ 13,200	\$ 13,200	\$ 23,000

To the Supervisor and
Members of the Township Board
Charter Township of China
St. Clair County, Michigan

In planning and performing our audit of the financial statements of the Charter Township of China as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Charter Township of China's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

The following deficiencies in internal control are considered to be material weaknesses:

Preparation of Financial Statements In Accordance with Generally Accepted Accounting Principles.

Management routinely prepares internal financial information to assess operations and the financial position of the Township on an ongoing basis. Although the internal financial information is sufficient to operate the Township, it is not presented in accordance with generally accepted accounting principles. The Township contracts with us, the auditors, to prepare adjustments to convert the general ledger from the cash basis to the modified accrual basis, to record the information necessary for the GASB 34 adjustments, and to draft the financial statements, including all necessary notes, in accordance with generally accepted accounting principles.

The following deficiencies in internal control are considered to be significant deficiencies:

All Cash and Investment Accounts should be Reconciled to the General Ledger on a Monthly Basis.

During the audit we noted that the certificates of deposit held by the Township were not reconciled to the general ledger. Although a list of these certificates and their balances is maintained by the Treasurer, the activity of these accounts should be recorded on the general ledger.

We understand that all checking accounts are reconciled to the general ledger on a monthly basis, and we recommend that the certificates of deposit be included in this monthly reconciliation process.

The Utility Billing Process should be Separated from the Receipting.

During the audit we noted that the same individual who is responsible for processing and adjusting the utility bills also has the ability to accept payments on the accounts. Allowing one person to process bills, adjust bills, and receipt payments creates the opportunity for discrepancies.

While we understand the constraints of a small office, these duties should be separated. We also recommend that any adjustments to the utility bills be approved by someone outside of the initial billing process.

Special Contracts/Agreements should be Monitored by at least Two Individuals.

It is our understanding that the contract for the King Road sewer line provides for “the initial cost of the construction of the installation of such sewer line extension” to be reimbursed by the company requesting the extension. During the audit we noted that all the actual costs of the project have not been reimbursed by the company.

It is difficult when a special agreement is set up that is outside of the normal billing process to monitor the total activity. Because of this difficulty, we recommend that one individual be assigned responsibility to initiate the billing, and another individual be assigned to monitor the billing and to ensure that the contract is being properly executed. A file should be maintained to assure the agreement is being fulfilled timely.

Compliance Issues.

During the audit we noted an amendment to the 2006 budget after year-end. The Michigan Department of Treasury Uniform Budget Manual states “There is no authority to amend the budget after year end.” The budget is a tool used to manage actual spending, and amending the budget after expending the funds does not allow this tool to be used as it is intended. We recommend that budget amendments be made prior to the funds being expended.

The General Property Tax Act provides that local units shall deliver payment to other tax assessing units within 10 business days after the first and fifteenth day of each month the tax collections that are on-hand. During the audit we noted that this process was not always followed. We also noted amounts that were not distributed from the tax fund to the Township funds for the county delinquent settlement and the interest earned on the tax checking account.

We recommend the Township disburse the amounts in the tax fund to the Township's funds and follow the statutory requirements of the General Property Tax Act for distribution of tax collections to the other tax assessing units.

This communication is intended solely for the information and use of management, the Township Board, and others within the Township, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script, appearing to read "Stewart, Beauvoir Whipple".

April 4, 2007